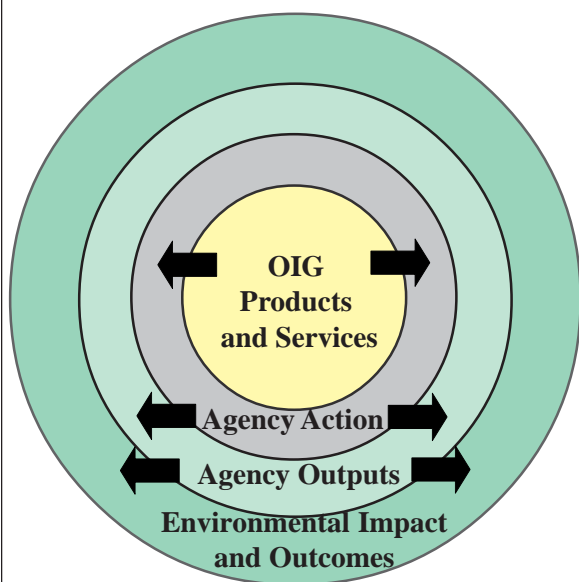




EPA OIG FY 2003 Annual Performance Report EXECUTIVE SUMMARY

Introduction

This OIG Executive Summary and Analysis of the Annual Performance Report has been created to help inform OIG management about the progress of its operations in relation to its Strategic Goals, and as a return on the investment of its resources. Performance is considered through a variety of measures and means in terms of both efficiency and effectiveness in providing added value and serving the needs of the OIG's customers and clients.



Creating a Nexus or Link Between Products and Services and Environmental Impacts and Goals

Many of the current performance results will not have an obvious connection to current activity or outputs, due to the time lag nature of our work.

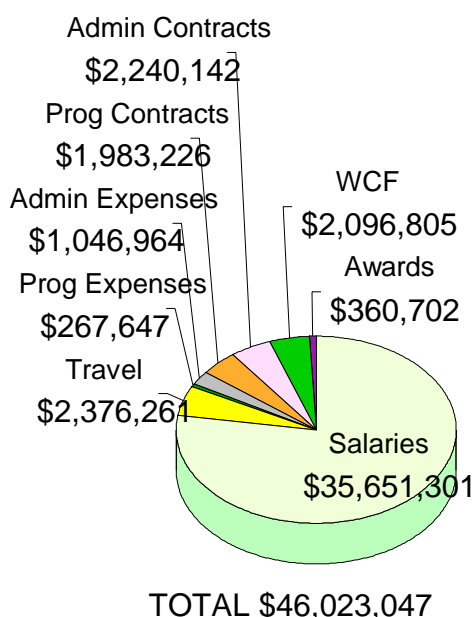
We plan with the end in mind, in terms of environmental impacts and outcomes. As we implement that plan, we measure the actions and subsequent progress influencing the eventual impacts, as demonstrated by the arrows in the diagram above. Following up on our work is essential to trace both the trail of events and their indicators, as well as understand why any connection may not have been made, or to identify any unintended consequences from our work. Performance is the value added starting from within the operations of the OIG, and extending through the Agency, its partners, and to the public benefit. Since value added is both intrinsic and extrinsic, we incorporate a variety of measures to capture a true picture of total value added, in relation to the investment and application of resources. This Summary and Analysis helps identify the longer term relationships between our inputs and outcomes and how well we are progressing with our plans and goals.

OIG Resources Management

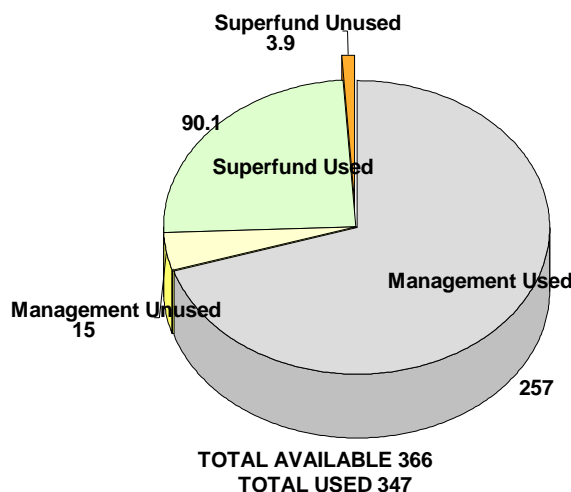
Below are charts which show the financial and staff resources used by the OIG during FY 03. The following pages demonstrate the operational activities and subsequent results in relation to the OIG Strategic and Annual Goals for FY 03. All activities and results show the return on the application of OIG resources as shown below. Results are measured and presented in this report in terms of:

- product outputs,
- outcome actions,
- impacts of public benefit, and
- customer value.

FY 03 Funds Used By Object Class



Use of Available FTE



Highlights: FY 2003 Goal 1 Results

Concern Regarding EPA World Trade Center Response

We found that unprotected workers and residents experienced unnecessary exposures to asbestos and other pollutants. We recommended EPA strengthen emergency response capabilities, risk assessment, and communication procedures, ensuring that public pronouncements regarding health risks and environmental quality are adequately supported by data analysis. *EPA agreed to develop clear risk assessment, emergency response and communication protocols.* (Report No. 2003-P-0012, August 21, 2003)

Department of Energy Hanford Superfund Site Cleanup Needs Improved Oversight

We identified environmental risks at DOE's Hanford Superfund Site cleanup including: (1) potential releases of radionuclides to the air, soil, groundwater, and Columbia River from structural failure of the K Basins; (2) continued discharge of high levels of chromium into the Columbia River as a result of an ineffective pump-and-treat system; and (3) potential discharge of groundwater contaminated with concentrations of hexavalent chromium and carbon-14 that exceed standards. *EPA improved the groundwater monitoring process within the reactor section to include annual monitoring of contaminated groundwater based on OIG recommendation.* (Report No. 2003-P-00002, November 4, 2002).

Steps Needed to Protect Water Supply

EPA needs to take further action to better protect the nation's water supply against bioterrorism and other terrorist acts. *EPA agreed with our assessment and has subsequently completed a review of a subset of vulnerability assessments submitted by large drinking water systems.* (Report No. 2003-M-0013, September 24, 2003)

Permit Compliance System Modifications Experiencing Delays

We reported that EPA's Permit Compliance System (PCS) modernization project is at least two years behind schedule and initial cost estimates have dramatically increased. PCS tracks permit issuance, as well as enforcement and inspection activity, for more than 64,000 facilities regulated under the Clean Water Act. *EPA agreed to address our concerns.* (Report No. 2003-M-0014, May 20, 2003)

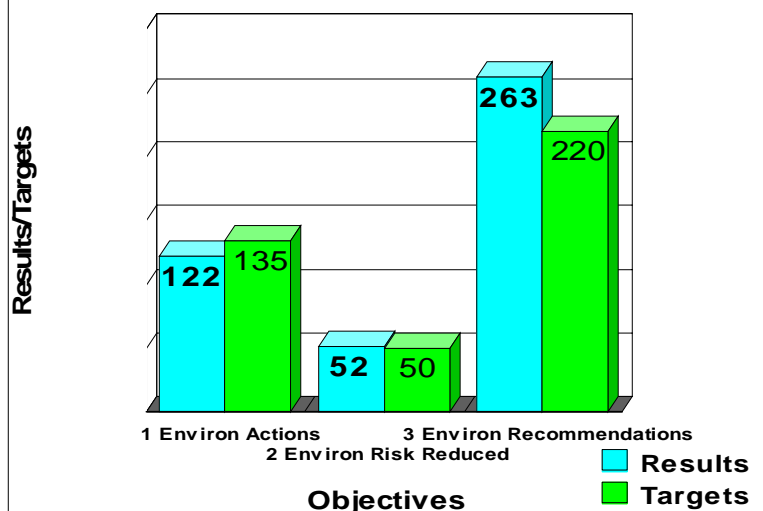
Goal 1: Contribute to Improved Human Health and the Environment

Objective 1: Influence significant programmatic changes to legislation, regulations, policy, processes and practices that have a positive impact on human health and the environment.

Objective 2: Identify and recommend solutions for reducing the highest environmental risks.

Objective 3: Identify recommendations, best practices and risks (including outside EPA) that can directly contribute to improved human health and the environment.

Cumulative Goal 1 Results for FYs 2001-2003



Results and Analysis

Annual targets were established for each objective within Goal 1 in our Strategic Plan for FYs 2001- 2005. Cumulatively for fiscal years 2001 through 2003, we achieved 90 percent of our target for Objective 1, while exceeding our targets for Objectives 2 and 3 (above table). Results for all Goal 1 objectives were inconsistent over the three year period due to increasing complexity and length of assignments, and the significant time lag between outputs and realization of subsequent outcome actions contributing to improved human health and environment. In fiscal year 2004, the OIG will commit additional resources to follow up and track environmental results of past work which may occur several years after reports are issued.

FY 2003 Results vs. Targets

Results	Targets	Measures
48	60	Agency/delegated entity actions/decisions/changes/improvements/best practices implemented or certified/validated influencing environmental impacts.
9	20	Environmental risks reduced or eliminated, or certification of integrity.
52	80	Environmental recommendations, risks, best practices identified.

Highlights: FY 2003 Goal 2 Results

Contractor Settlement Valued at \$391 Million

A civil fraud settlement agreement valued at \$391 million with ICF Kaiser International, Inc. and the United States resulted after a lengthy investigation conducted by EPA OIG and the Nuclear Regulatory Commission OIG. The investigation disclosed that ICF may have billed EPA and 17 other Federal Agencies excess costs on contracts for computer center costs. The investigation was initiated by an EPA OIG contract audit.

Settlement Results in \$2.5 Million Savings

A mediated settlement before the General Services Administration, Board of Contract Appeals, on May 27, 2003, resulted in cost savings to the Government of \$2,544,062 in a false claims case against a joint venture of Reza, Inc., and Dennis J. Amoroso Construction company involved in a water treatment project. *Under the terms of the mediated settlement, the Government agreed to only pay Reza \$1.1 million and Reza agreed to dismiss the \$3.6 million in claims against the Government, resulting in a \$2.5 million cost savings.*

Computer Security Self-Assessment Process Needs Improvement

We reported that weaknesses in EPA's computer security self-assessment process were caused primarily because EPA did not have a systematic program to ensure that system controls were accurately reported and implemented throughout the Agency. *EPA generally agreed with our recommendations to increase its efforts in this area and has taken actions to establish a computer security self-assessment process.* (Report No. 2003-P-00017, September 30, 2003)

Region 6 Improves Oversight of Louisiana Environmental Programs

Since we issued our report, "EPA Region 6 Needs to Improve Oversight of Louisiana's Environmental Programs," Region 6 has taken several key actions to improve oversight. *Region 6 established two new leadership positions to ensure that Louisiana implements the EPA-defined performance measures for its water program, and develops an approach to oversee the Region's five States.* (Report No. (2003-P-00005), February 3, 2003)

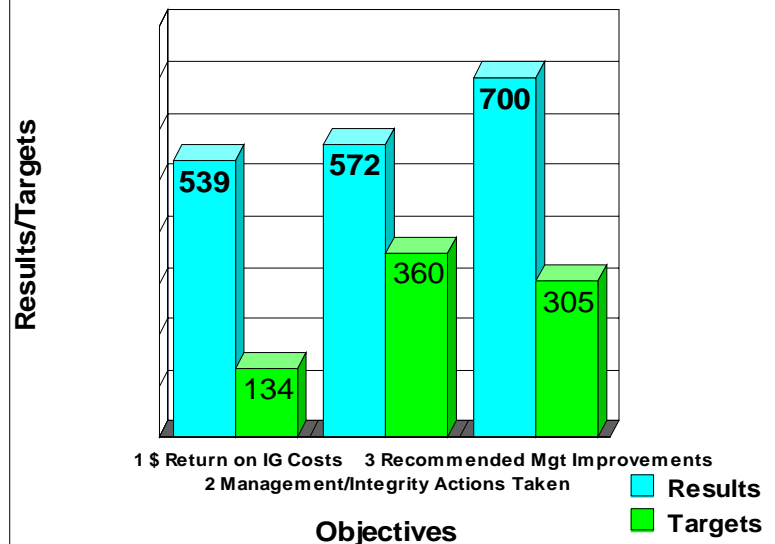
Goal 2: Improving EPA's Management and Program Operations

Objective 1: Identify opportunities for improved economy, efficiency, and accountability in EPA programs and operations.

Objective 2: Improve efficiency and integrity of EPA business and program operations by reducing vulnerabilities for fraud and risk and by influencing better business actions or changes.

Objective 3: Identify recommendations, best practices, and management challenges that can directly influence and promote actions for improved business operations.

Cumulative Goal 2 Results for FYs 2001-2003



Results and Analysis

Goal 2 cumulative results for fiscal years 2001 through 2003, significantly exceeded the strategic annual targets for each of the three objectives. Objective 1 results were 402 percent of the target, Objective 2 results were 159 percent of target, and Objective 3 results were 230 percent of target (table above). The Goal 2 annual targets were increased in the OIG Strategic Plan for FYs 2004-2008 based on the prior three year's results.

FY 2003 Results vs. Targets

Results Targets		Measures
\$411	\$48	Million in potential costs, savings, fines and recoveries compared to OIG budget
83	50	Criminal, civil, or administrative actions
138	75	Management practice/policy changes/best practices implemented or certification.
264	155	Management recommendations, best practices, challenges or weaknesses identified

Highlights: FY 2003 Goal 3 Results

Inspector General Testifies to Congress on Assistance Agreements

In June 2003, at the request of the U.S. House of Representatives' Subcommittee on Water Resources and the Environment, Committee on Transportation and Infrastructure, the Inspector General told the Congressional subcommittee that while EPA has acted to improve management of assistance agreements, it needs to ensure that adequate resources are devoted to awarding and monitoring such agreements, and personnel are held accountable.

Delegation from Korea Visits With OIG

In September 2003, the OIG welcomed an 18-member research team from the Board of Audit and Inspection (BAI), Seoul, Republic of Korea to learn about our best practices that they could apply in their own work. In addition to BAI representatives, the visiting team included auditors from diverse Korean agencies who were awarded the "Best Internal Auditors" designation from their agencies. The agencies included the Ministry of Defense, Ministry of Health and Welfare, National Tax Service, Korea Customs Service, a bank, and several city and provincial agencies.

OIG Leads PCIE GPRA and Human Resources Round Tables and Products

The President's Council on Integrity and Efficiency (PCIE) Government Performance and Results Act Roundtable, chaired by the EPA OIG, developed a guide for the involvement of Government OIGs with the Program Assessment Rating Tool (PART). The guide, developed by the EPA OIG with input from the Roundtable members, discusses several ways that OIGs could best assist OMB and its agencies.

OIG Reported Management Challenges Becomes EPA Cross-Cutting Strategies

EPA developed and issued a new five goal Strategic Plan for the Period FY 2003 - 2008. At the urging of the OIG to address the Top Management Challenges in its strategic Plan, EPA created cross-cutting strategies, which are a direct acknowledgment of the importance of resolving the Management Challenges as the foundation for achieving its Goals. The EPA Strategic Plan itself, reflects a number of the recommendations the OIG has made for improving its planning and outcome measurement.

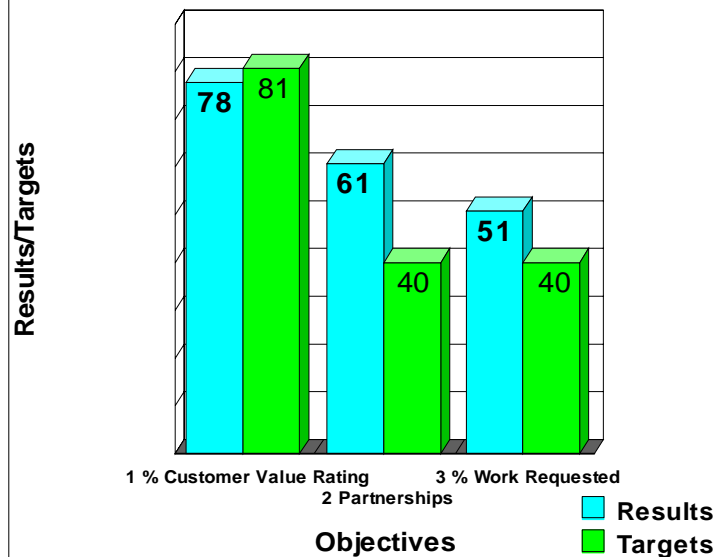
Goal 3: Producing Timely, Quality and Cost Effective Products and Services that Meet Customer Needs

Objective 1: Provide the right products, at the right time to the right customers, at the right cost.

Objective 2: Build infrastructure, relationships and partnerships to leverage change.

Objective 3: Increase professional image and demand for products and services.

Cumulative Goal 3 Results for FYs 2001-2003



Results and Analysis

Goal 3 cumulative results for fiscal years 2001 through 2003, generally met or exceeded the strategic annual targets for each of the three objectives. Objective 1 results were 96 percent of the target, Objective 2 results were 150 percent of target, and Objective 3 results were 128 percent of target (table above). The Goal 3 annual targets have been combined with Goal 4 targets along with some additional new targets to capture timeliness, cycle time in the OIG Strategic Plan for FYs 2004-2008.

FY 2003 Results Vs. Targets

Results	Targets	Measures
56	40	Number of assignments done in collaboration with partners or number of partners.
51%	40%	Percent of OIG work required or requested.
28	N/A	Requests to testify for external speaking engagements.
74%	81%	Overall Customer value ratings.
71%	73%	Percent of work/budget milestones met.
68	N/A	Number of proposed changes to legislation, regulations, policies or procedures reviewed for comments

Highlights: FY 2003 Goal 4 Results

OIG Issues First Multi-Year Plan

OIG developed its first Multi-Year Plan covering fiscal 2003 through 2005 as the connecting link between EPA's Strategic Goals, OIG's Strategic Goals and Annual Work Plans. The Multi-Year Plan uses a sequential progression of questions in Product Line Tracks linked to EPA programs and operations. The questions are cumulatively answered through assignments that provide analysis and recommendations critical to success of EPA's mission.

OIG Developed "Systems Guide"

OIG developed a guide, "Assessing Organizational Systems: a User's Guide," that can be used by both OIG and Agency Program Managers to assess organizational efficiency and effectiveness. Using questions in the seven areas of the Malcolm Baldrige criteria, (leadership, strategic planning, customer/stakeholder/market focus, information and analysis, human capital, process management and performance measurement) the guide helps develop an overall picture of the organizations conditions and root causes, leading to comprehensive solutions.

OIG Develops New Training System

A new Training Information System (TIS) was designed to provide supervisors and staff with critical information on career management and development. **Individual Development Plan and Training Request, Authorization, Agreement, and Certificate of Training** forms have been automated in the system. In addition, tools for managing **Continuing Professional Education** and **Career Management Framework** information have also been included. Organizationally, TIS will contribute to the development of the OIG Human Capital Budget and provide the ability to better assess the quality of OIG career development programs.

OIG Uses Strength, Weaknesses, Opportunities and Threats Analysis

The OIG used innovative techniques to update its strategic plan for FYs 2004 through 2008 by using "SWOT" (strength, weakness, opportunities and threats) analysis to research and collect information, using surveys and interviews of OIG staff, EPA leadership, and others in the Federal government. Information was further categorized by air, water, land, cross-media, EPA management, and OIG performance to identify priority areas for OIG.

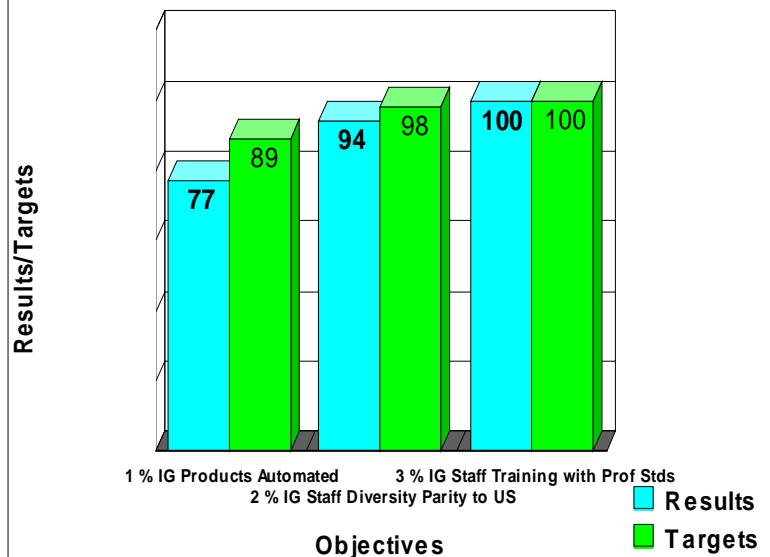
Goal 4: Enhancing Diversity, Innovation, Teamwork and Competencies

Objective 1: Improved organization systems and production process.

Objective 2: Increased recognition for diversity, innovation, and teamwork.

Objective 3: Improved continuous learning and demonstrated competencies in EPA programs, professional, technical, and leadership skills.

Cumulative Goal 4 Results for FYs 2001-2003



Results and Analysis

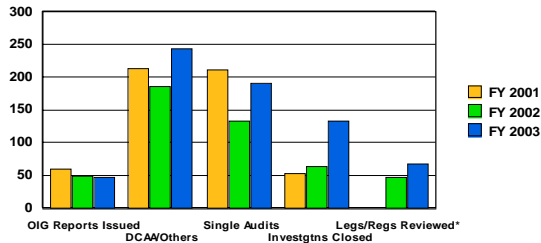
Goal 4 cumulative results for fiscal years 2001 through 2003, generally met the strategic annual targets for each of the three objectives. Objective 1 results were 87 percent of the target, Objective 2 results were 96 percent of target, and Objective 3 results were 100 percent of target (table above). The Goal 3 annual targets have been combined with Goal 4 targets along with some additional new targets to capture timeliness, cycle time, in the OIG Strategic Plan for FYs 2004-2008.

FY 2003 Results Vs. Targets

Results	Targets	Measures
94%	100%	Percent parity with the civilian workforce
101	71	Number of assignments done with multi-discipline teams
88%	87%	Percent of work performed electronically
65%	93%	Percent of work products accessible electronically
44	22	Number of innovative techniques/processes implemented by the OIG
100%	100%	Percent staff in compliance with professional training standards
347	N/A	Number of staff recognition awards (monetary)

Operational Activity

This chart demonstrates the performance of the OIG, by the number of products completed each year for the period FY 2001- 2003. Additional products in the form of advisory services, briefings, and memo reports are not listed in this chart.



* 2001 data not available

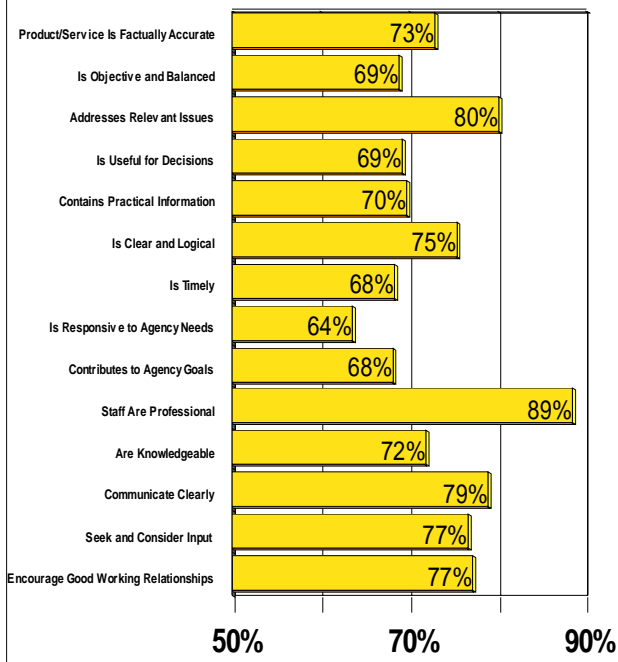
Other FY 03 Program Activity

- < 136 Investigations opened.
- < 183 Pending investigations at 9/30/03.
- < 638 Hotline complaints received.
- < 571 Hotline complaints closed.
- < 12 PCIE projects led or developed.
- < 28 Requests to testify or provide external presentations.

Customer Value

This chart demonstrates the overall responses, by question to OIG Customer Surveys about products and staff services. The Survey results are lower in FY 03 than in the past two years, but do not include results of investigation operations as they did in the past. OIG customer satisfaction scores are higher than that for Federal Government overall as collected by the American Customer Service Index.

Overall Customer Survey Results for FY 2003

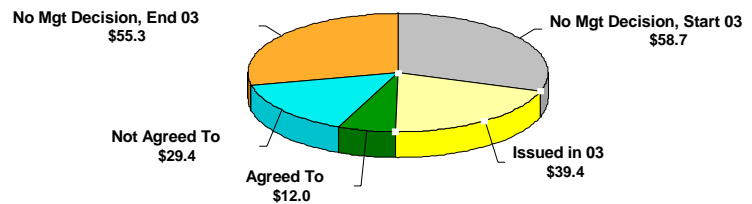


Followup and Audit Resolution

The Agency has improved its resolution of audits, reducing the inventory of audits with no management decisions. The dollar value of final actions taken has increased from \$10.4 million in FY 2002 to \$43.7 million in FY 2003. However only 12 percent, \$10.8 million, of the questioned costs or efficiencies in the inventory have been agreed to by management (excluding \$1.2 million in costs agreed to prior to resolution process). Status of results for FY03 follows:

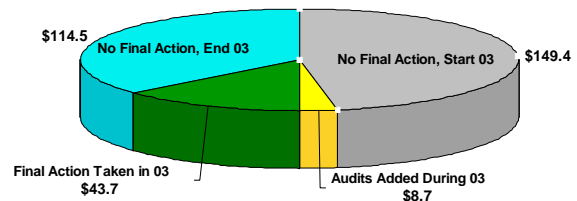
- 128 Reports resolved.
- 132 Audits with no final action by EPA, over 365 days past due.
- 52 Reports for which no management decision was made within 6 months (as of 9/30).

Audit Resolution - Questioned Costs & Cost Efficiencies With No Management Decision



in millions of dollars

Audit Resolution - Audits With Management Decision

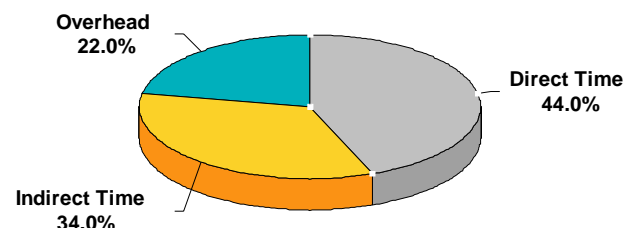


in millions of dollars

Timeliness of OIG Products

This section shows the application of OIG staff time and relative timeliness and cost of selected products. The OIG is improving the amount of direct time applied to products and services over the past two years, and achieved 73 percent of its direct time goal.

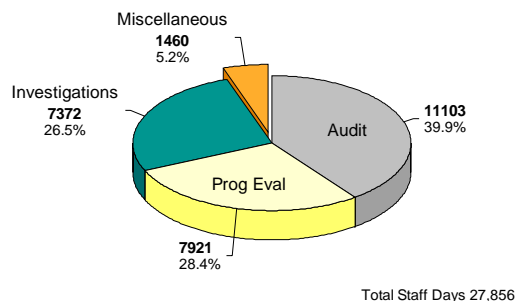
Distribution of OIG Staff Time, Total 347.1 FTE



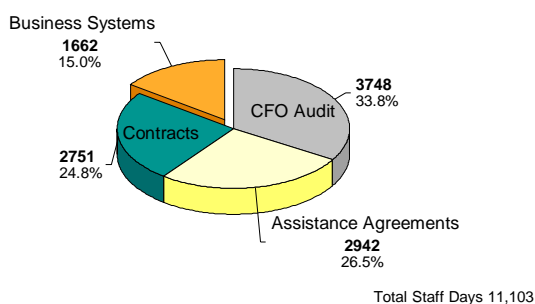
Analysis and Return on Investment Implications

In terms of return on investment, evaluations and performance audits produce fewer outputs, but are expected to leverage highly significant long term impacts associated with Goal 1, generally not recognizable in the short term. Conversely, financial and special audits are highly efficient in the short term and account for most current results associated with Goal 2. The overall return on investment is improving with greater significance of our work and value added.

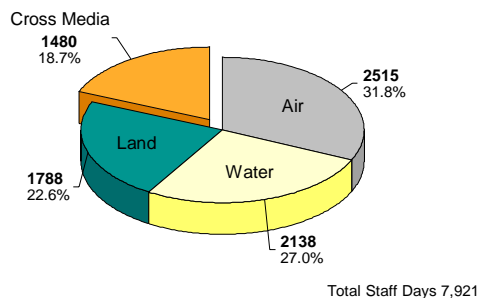
Distribution of Direct Product Line Staff Days



Distribution of Audit Product Line Staff Days



Distribution of Program Evaluation Product Line Staff Days



Number of Audits/Evaluations by type in sample

	2001	2002	2003
Performance Audits /Evaluations	14	18	19
Financial Audits	11	20	16
Special Audits	7	11	6

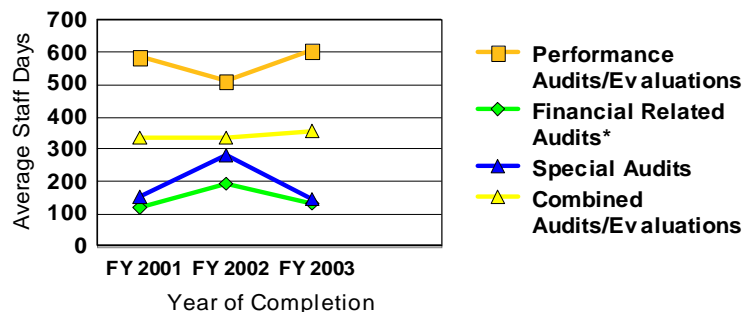
Average "Loaded Cost" per Audit/Evaluation by Type

Perf. Audits/Evals	\$468,072	\$408,672	\$480,744
Financial Audits	95,000	152,856	106,128
Special Audits	122,760	22,176	113,256

The "Loaded" average staff day cost is approximate \$792, including all indirect and overhead costs.

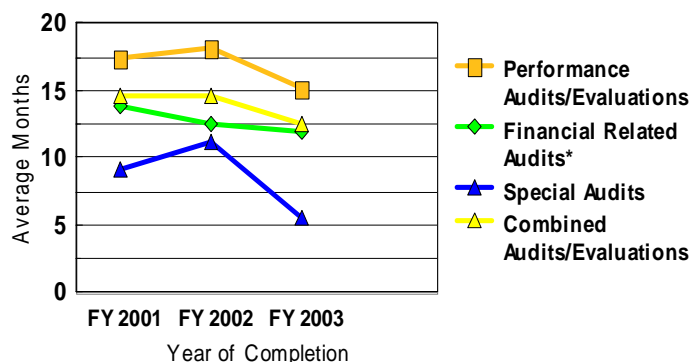
The overall timeliness of all evaluations and audits is improving as we invest more resources in them, improve our skill mix and become familiar with more complex problems and issues.

Average Staff Days on Audit/Evaluation Products



* excludes Audit of Agency Financial Statements

Average Months Elapsed on Audit/Evaluation Products



* excludes Audit of Agency Financial Statements

Staffing and Skill Mix

The OIG has identified the skills needed to fulfill its Strategic and Multi-Year Plans in relation to the in house available skill. The difference represents the skill gap and the OIG is working to reduce the skill gap through hiring and use of "experts" via contract. Below is a chart of the skill gap identified in FY 2002, and the progress made in reducing the gap in FY 2003.

Skill/Title	FY 02 Gap	FY 03 Gap	FY 03 Progress
Environmental Scientist	11	9	+2
Social Scientist	10	10	0
Operations Research Analyst	7	3	+4
Program Analyst	50	2	+48
Financial Auditor	(52)	(12)	-40
IT Auditor	6	6	0
Computer Specialist	3	3	0
Criminal Investigator	18	18	0
TOTAL	53	39	+14

We request your input and questions concerning the EPA Office of Inspector General. Please let us know what we are doing well, and how we can better serve our customers. This report and other information about the OIG and its products are available on our web site: www.epa.gov/oig

For questions, comments or to obtain copies of this report, please contact any of the following:

Office of Congressional and Public Liaison (202) 566-2391

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